HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Saguenay CMA

Canada Mortgage and Housing Corporation

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Economic overview

In the last issue of *Housing Market Outlook – Saguenay CMA* (second quarter of 2007), it was mentioned that a wind of enthusiasm was blowing over the area following several investments announced at the end of 2006, such as the construction of the Alcan AP50 technology plant in Jonquière and the Hydro-Québec Eastmain-1-A hydroelectric project. At the time, these projects were in addition to a few others already under way, including the widening of Highway 175 and the Hydro-Québec Péribonka IV project.

Now, since then, another major investment has been announced. There will be a new 550-soldier expeditionary wing at the Bagotville military base, right near La Baie—an investment of $300 million by 2015. Out of these 550 additional soldiers, 250 are expected by 2010. As a result, in the space of a few quarters, the Saguenay census metropolitan area (CMA) economic environment has become slightly more favourable,

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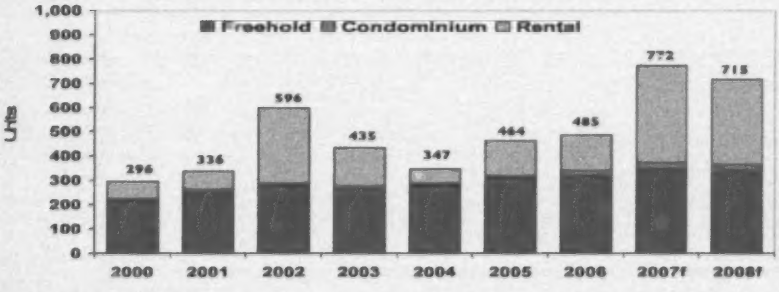
Figure 1

Total Housing Starts

Saguenay Census Metropolitan Area



Source : CMHC
f : forecast

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and enthusiasm is back in the area. So, what are the job prospects like in the area? According to Service Canada, the construction and secondary and tertiary wood and aluminium processing sectors will be the main driving forces behind job creation from now until 2009. Other sectors, like agriculture and forestry, will continue to experience difficult times, with expected job losses, but this should not overly affect the Saguenay CMA. For 2007, it is anticipated that the number of jobs will rise very modestly (+0.7 per cent), because the impact of the major investments announced in recent months will not be felt immediately. In 2008, a slight upturn is expected, thanks to the start-up of a few projects and the creation of about 1,000 jobs (+1.4 per cent). Given these forecasts, it is clear that job creation will not be the main engine of the housing market over the next two years.

Demographic overview

The latest demographic statistics drawn from the 2006 Census indicate that the Saguenay CMA population declined from 154,938 to 151,643 inhabitants between 2001 and 2006, for a decrease of 2.1 per cent. However, these statistics also show that, among the CMAs in Quebec, Saguenay posted the strongest increase (+15.1 per cent) in the number of people aged 65 years or older.
Despite this decline in the population, one positive statistic published at the beginning of 2007 concerning the Saguenay area (Chicoutimi, Jonquière, La Baie) indicated that the net intraprovincial migration deficit (movement within Quebec) has decreased considerably. In fact, according to data from the Institut de la statistique du Québec, the net loss went from 1,229 people in 2004/2005 down to 742 in 2005/2006. It would therefore seem that fewer and fewer people are leaving the area to settle elsewhere in the province. Finally, a few real estate agents have even noted the return of some baby boomers who, after having worked in Québec or Montréal for a number of years, decided to come back to where they grew up.

Mortgage rates to edge up

Moderate inflation and a strong Canadian dollar vis-à-vis the U.S. dollar will help keep Canadian mortgage rates flat over the remainder of this year. One- and five-year posted mortgage rates are forecast to be in the 6.00-7.00 and 6.50-7.50 per cent ranges, respectively.

In 2008, these rates are forecast to rise marginally and be within 25-50 basis points of their 2007 annual averages.

Residential construction

In 2007 and 2008, residential construction will be strong. It is anticipated that 772 units will be started in 2007, for an increase of 60 per cent over 2006. For 2008, another busy year is expected, with 715 starts (-7 per cent). These forecasts suggest that there could a real estate boom could be taking place in the area, but this is not really the case. Activity will effectively be intense on job sites, but a review of the situation by intended market quickly reveals that this good performance will be attributable to the construction of a few large buildings. This is therefore not a general trend, but rather the consequence of the addition of a few major housing projects intended for a specific group of clients, namely, seniors.

Retirement homes at the forefront

After a few years of status quo, retirement home construction will pick up nicely in the borough of Chicoutimi in 2007 and 2008. And these are the housing projects that will inflate the total number of starts on the Saguenay CMA territory over the next two years. With a vacancy rate[1] of 0.3 per cent in this sector in 2006 and the continued aging of the population, it is easy to understand why developers are enthusiastic about this sector. It is anticipated that 290 units for this client group

[1] Retirement home market survey (retirement homes with 10 or more units)

will be built in 2007 and 300 more, in 2008, all in the borough of Chicoutimi. These units will account for around 40 per cent of all housing starts in the area.

In 2007, construction is expected to get under way on a total of 400 rental dwellings (including the retirement housing units). Among these dwellings, just over 50 are social housing units and the rest are intended for the traditional rental market. It is important to note that, even after two consecutive decreases in the vacancy rate in 2005 and 2006, the area still shows a small surplus of traditional rental units, which is resulting in fewer starts for this market.

Economic conditions to remain favourable to homeownership

The construction of freehold homes[2] has been relatively stable since the beginning of the decade, but a slight upward trend can be noted since 2005. Certainly, the mortgage rates have been and remain favourable from a historical standpoint, but they are not the only factor that led to this slight increase in activity. The resale market has had few properties for sale over the past several quarters, and there is no indication of a turnaround in the situation on the horizon. This is forcing some households who cannot find a property that suits them on the existing home market to opt for a new house. Also, the

Figure 2

decrease in the net migration deficit has very likely supported demand, and this is expected to continue over the coming years. In addition to these factors, the labour market has been keeping up with the major projects and the number of households has continued to grow despite the decline in the population. Divorces and the aging of the population are causing the number of single-person households to increase and consequently leading to positive growth in the number of households.

Before going into detail about the forecasts for this market, another factor should be mentioned, as we feel that it is not negligible when the time comes to buy a property. We are referring to disposable income, that is, what is left in taxpayers' pockets after all the deductions. According to an article published in July 2007 issue of *Affaires plus* magazine, the disposable income of a Quebec family with a total income of $100,000 has risen by 20 per cent since 1997, thanks to tax cuts, various allowances or programs favouring family households, implemented by the different levels of government.

In 2007, the above-mentioned factors will continue to fuel demand for new freehold homes, and there should be 347 starts of this type (+9 per cent). Even if most of these factors will have a similar impact in 2008, the anticipated slight rise in mortgage rates could affect the home buying plans of some households, and starts are expected to reach 340 units (-3 per cent).

Single-detached houses still the first choice of buyers

A review of the statistics concerning freehold home starts clearly shows that single-detached houses remain the top choice of buyers in the area. In fact, since the beginning of the current decade, single-detached houses have accounted for around 87 per cent of all freehold home

[2] Refers to single-family homes (single-detached, semi-detached and row houses) owned under freehold tenure and owner-occupied duplexes.

starts. We are therefore expecting single-detached housing starts to register an increase of 11 per cent in 2007 and then a small decrease in 2008, which should be less significant than the declines anticipated for the other types of properties.

Is the condominium market growing?

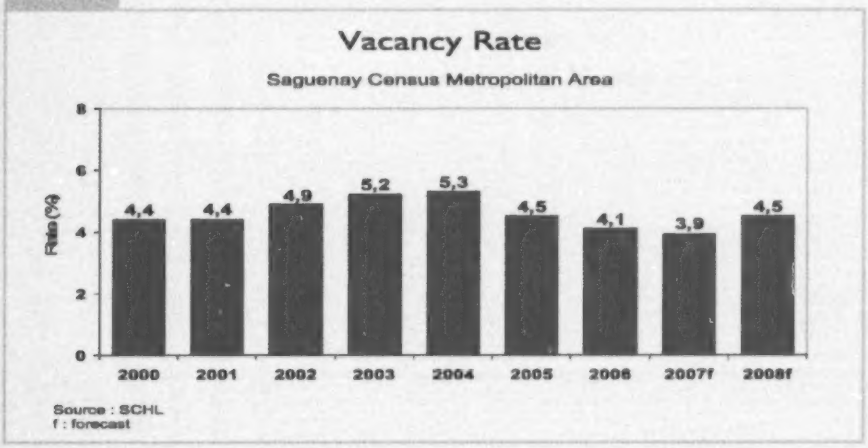
Condominiums are starting to gain a foothold in the Saguenay CMA market. After the construction of 7 condominium units in 2004 and 5 units in 2005, the total tripled in 2006, reaching 21 starts. It is now expected that 25 new units of this type will be built in 2007 and as many in 2008. The share of condominiums could continue to grow, as people discover the benefits of this type of housing. As well, the possible return to the area of baby boomers who had moved away to Québec or Montréal could fuel the future demand for such dwellings.

Resale market

With demand still very strong, sales of existing homes should reach a new peak in 2007. Continued favourable mortgage rates and improved net migration and disposable income levels are the main driving forces of this market. As a result, 1,275 transactions are forecast on this market in 2007, or 31 more than the previous record set in 2004. For 2008, a slight decline is expected, mainly on account of the small mortgage rate hikes that could occur from now until then and the rapid growth in prices that has taken place over the last several quarters, and 1,230 sales should be registered.

The resale market continues to favour sellers, and there is no indication that the situation will change in 2008. Supply of existing properties for sale is limited and demand is strong, so the price increases have been well above inflation. In this environment, the average price of single-family homes[3] is expected to reach $135,500 by the end of 2007, for a gain of 13 per cent over 2006. In 2008, the anticipated slowdown in demand will slightly ease the pressure on prices, but an increase of 7 per cent is still forecast.

Figure 3



Rental market

Strong demand for both new and existing homes is leading us to anticipate the same situation on the rental market. Following two consecutive decreases in 2005 and 2006, the vacancy rate is expected to fall slightly in 2007 and reach 3.9 per cent. The improved net migration deficit and the job prospects related to the major projects will be the main reasons for this decline in the vacancy rate.

[3] Single-family homes include single-detached, semi-detached and row houses.

Forecast Summary Saguenay CMA Fall 2007							
	2004	2005	2006	2007f	% chg	2008f	% chg
Resale Market							
MLS® Sales	1,077	1,244	1,232	1,300	5.5	1,230	-5.3
MLS® Average Price ($)	100,371	109,419	120,238	135,500	12.7	145,500	7.3
New Home Market							
Starts:							
Single-Detached	244	267	271	300	10.7	295	-1.7
Multiples	103	197	214	472	120.6	420	-11.0
Starts - Total	347	464	485	772	59.2	715	-7.4
Average Price ($):							
Single-Detached	347	464	485	772	59.2	715	-7.4
New Housing Price Index (% chg) (Que.)	6.3	4.9	4.4	n.d.	_	n.d.	_
Rental Market							
October Vacancy Rate (%)	5.3	4.5	4.1	3.9	-0.1	4.5	0.5
Two-bedroom Average Rent (October) ($)	459	472	485	493	2	505	2
Economic Overview							
Mortgage Rate (1 year) (%)	4.80	5.80	6.30	6.86	_	7.19	_
Mortgage Rate (5 year) (%)	6.05	6.30	6.45	7.02	_	7.41	_
Annual Employment Level	71,800	68,200	70,400	70,900	0.7	71,900	1.4
Employment Growth (%)	4.5	-5.0	3.2	0.7	_	1.4	_
Unemployment rate (%)	11.0	9.9	8.8	10.5	-1.7	10.2	-0.3
Net Migration	-1,335	-1,383	-1,417	-900	-36.5	-800	-11.1

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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